

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gaylord Downtown Development Authority	County Otsego
Fiscal Year End June 30, 2006	Opinion Date November 22, 2006	Date Audit Report Submitted to State December 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES

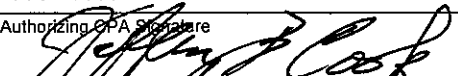
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Keskine, Cook, Miller & Alexander, LLP		Telephone Number 989-732-7515	
Street Address 100 West First St		City Gaylord	State MI
Zip 49735		License Number 11876	
Authorizing CPA Signature 		Printed Name Jeffrey B Cook	

GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

Report Letter	1
Basic Financial Statements	
Government-wide and Fund Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet	2
Statement of Activities and Governmental Fund Revenue, Expenditures and Changes in Fund Balance	3
Notes to Financial Statements	4 – 8
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	9

INDEPENDENT AUDITOR'S REPORT

Gaylord Downtown Development Authority
Gaylord, Michigan

We have audited the accompanying financial statements of the Gaylord Downtown Development Authority, a component unit of the City of Gaylord, Michigan, as of June 30, 2006, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Gaylord Downtown Development Authority, as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Gaylord Downtown Development Authority has not presented a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the management's discussion and analysis is necessary to supplement, although is not required to be a part of, the basic financial statements.

The accompanying required supplemental information, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gaylord Downtown Development Authority's basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Keskine, Cook, Miller & Alexander LLP
KESKINE, COOK, MILLER & ALEXANDER, LLP

November 22, 2006

GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND
BALANCE SHEET
YEAR ENDED JUNE 30, 2006

	General Fund- Modified Accrual Basis	Adjustments	Statement of Net Assets - Full Accrual Basis
Assets			
Cash and cash equivalents	\$ 85,641	\$ -	\$ 85,641
Total Assets	<u>\$ 85,641</u>	<u>-</u>	<u>85,641</u>
Liabilities and Fund Equity			
Liabilities:			
Due to primary government	\$ 250,468	\$ -	\$ 250,468
Total Liabilities	250,468	-	<u>250,468</u>
Fund Balance			
Unreserved fund deficit	<u>(164,827)</u>	<u>164,827</u>	-
Total Liabilities and Fund Deficit	<u>\$ 85,641</u>		
Net Assets			
Unrestricted		<u>164,827</u>	<u>(164,827)</u>
Total net assets		<u>\$ -</u>	<u>\$ 85,641</u>

The Notes to Financial Statements are an Integral Part of the Financial Statements.

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2006**

	General Fund - Modified <u>Accrual Basis</u>	<u>Adjustments</u>	Statement of Activities - Full <u>Accrual Basis</u>
Revenue			
Property taxes and assessments	\$ 512,943	\$ -	\$ 512,943
Contributions from other funds	\$ 25,000	\$ -	\$ 25,000
Interest income	<u>7,156</u>	<u>-</u>	<u>7,156</u>
Total revenue	545,099	-	545,099
Expenditures			
Community and economic development	279,706	-	279,706
Debt service - Pass through commitment	<u>314,613</u>	<u>-</u>	<u>314,613</u>
Total expenditures	<u>594,319</u>	<u>-</u>	<u>594,319</u>
Excess of Revenue Under Expenditures	(49,220)	-	(49,220)
Fund Balance/Net Assets - July 1, 2005	<u>(115,607)</u>	<u>-</u>	<u>(115,607)</u>
Fund Balance/Net Assets - June 30, 2006	<u>\$ (164,827)</u>	<u>\$ -</u>	<u>\$ (164,827)</u>

The Notes to Financial Statements are an Integral Part of the Financial Statements.

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gaylord Downtown Development Authority (the "DDA" conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Gaylord Downtown Development Authority:

Reporting Entity

The Downtown Development Authority was organized in 1985, by the City of Gaylord, under Public Act 197 of the State of Michigan. Its purpose is to analyze the impact of economic changes and growth in the downtown district. The district is defined by the City's Ordinance 1985-09. The boundaries of the district extend from the north I-75 overpass east through the downtown district and encompass approximately 25 square blocks. The DDA by ordinance will expire on June 15, 2012. Additional information regarding the City of Gaylord, the DDA and the DDA-TIF is contained in the City of Gaylord's audited financial statements available at the City offices located at 225 West Main Street, Gaylord, MI 49735.

The accompanying financial statements pertain to the financial activities of the DDA. These activities have also been presented with the financial statements of the City of Gaylord, Michigan as a component unit.

The accounting policies of the DDA conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

The modified accrual basis of accounting is used. Modifications in such method from the accrual basis are as follows:

- (a) Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- (b) Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- (c) Normally, expenditures are not divided between years by the recording of prepaid expenses.

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

- (d) Construction costs are recorded as expenditures when incurred.
- (e) Payments on debt are recorded as expenditures on their due dates.

Full Accrual and Modified Accrual Basis Financial Statements

The full accrual basis financial statements report information on all of the activities of the DDA on a long term perspective. Governmental activities such as the DDA are normally supported by taxes.

The full accrual statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The full accrual financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified accrual fund based financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DDA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to claims and judgments are recorded only when payment is due.

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the DDA.

While the above paragraphs describe the conceptual framework upon which GASB statement 34 has been developed, as a practical matter, there are no differences in the methods as related to the Gaylord Downtown Development Authority.

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15, at which time penalties and interest are assessed. The final collection date of February 28, before they are added to the county tax rolls.

The 2006 taxable valuation of the DDA totaled \$162 million, on which taxes levied consisted of 1.8582 mills for operating purposes. In addition, the DDA has revenue for captured taxes. Captured taxes represent the property taxes on the increment in taxable value of the downtown development district. This tax revenue is designated for the repayment of bonds sold by the City to finance street/sidewalk improvements and other purposes. In total, the DDA recognized revenue of approximately \$513,000 as tax revenue.

The General Fund is the DDA's only operating fund. It accounts for all financial resources of the Downtown Development Authority.

Bank Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

NOTE B: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Director and then reviewed by the DDA. After the budget is approved by the DDA, it is then presented to the City Council of Gaylord for approval prior to the start of the fiscal year. Amendments are also approved by the City Council as needed.

Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted based on total revenue and expenditures by fund; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Excess of Expenditures Over Appropriations in Budgeted Funds – The DDA did have significant expenditures budget variances.

NOTE C: CASH AND CASH EQUIVALENTS

The Authority's cash is comprised of bank deposits that are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$85,641 all of which was covered by federal depository insurance.

NOTE D: COMMITMENTS

Beginning July 1, 1993, the Authority set up a Tax Increment Financing Plan that will last 20 years. The revenue under this Plan is designated for the repayment of \$1.9 million in bonds sold by the City to finance street/sidewalk improvements and other purposes. The bonds are backed by the full faith and credit of the City of Gaylord and are accordingly reflected in the City's long-term debt. The bonds are payable in installments of \$25,000 to \$200,000 plus interest ranging from 5 to 8 percent through 2011. The first principal payment was due April 1, 1997.

GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

NOTE D: COMMITMENTS (CONTINUED)

An additional \$900,000 of tax development bonds were sold during the year ended June 30, 2002. The bonds are backed by the full faith and credit of the City of Gaylord and are accordingly reflected in the City's long-term debt. The bonds are payable in installments of \$75,000 to \$125,000 plus interest ranging from 3.5 to 4.6 percent through 2011.

Under its pledge to the City, the DDA transfers amounts annually to pay the principal and interest on the City of Gaylord's long-term debt. The annual requirements to service these bonds as of June 30, 2006, including both principal and interest, as shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 250,000	\$ 78,212	\$ 328,212
2008	300,000	65,175	365,175
2009	300,000	49,375	349,375
2010	325,000	33,275	358,275
2011	325,000	15,750	340,750
Total	<u>\$ 1,500,000</u>	<u>\$ 241,787</u>	<u>\$ 1,741,787</u>

REQUIRED SUPPLEMENTAL INFORMATION

**GAYLORD DOWNTOWN DEVELOPMENT AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Amended Budget</u>
Revenue				
Property taxes and assessments	\$ 503,353	\$ 503,353	\$ 512,943	\$ 9,590
Interest income	<u>-</u>	<u>-</u>	<u>32,156</u>	<u>32,156</u>
Total revenue	503,353	503,353	545,099	41,746
Expenditures				
Community and economic development	313,110	313,110	279,706	(33,404)
Debt service – Pass through commitment	<u>276,313</u>	<u>276,313</u>	<u>314,613</u>	<u>33,800</u>
Total expenditures	<u>589,423</u>	<u>589,423</u>	<u>594,319</u>	<u>396</u>
Excess of Revenue Under Expenditures	(86,070)	(86,070)	(49,220)	36,850
Fund Balances – July 1, 2005	<u>(115,607)</u>	<u>(115,607)</u>	<u>(115,607)</u>	<u>-</u>
Fund Balances – June 30, 2006	<u><u>\$ (201,677)</u></u>	<u><u>\$ (201,677)</u></u>	<u><u>\$ (164,827)</u></u>	<u><u>\$ 36,850</u></u>



Keskin, Cook, Miller & Alexander, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, CPA
Jeffrey B. Cook, CPA
Richard W. Miller, CPA
Ronald D. Alexander, CPA
Curt A. Reppuhn, CPA

November 22, 2006

Gaylord Downtown Development Authority

During the course of our audit we noted the Authority budgeted a deficit, overspent its budget (Debt Service) and continues to maintain a fund deficit in violation of Michigan Public Act 2. We recommend you comply with Public Act 2 and eliminate the Fund balance deficit as soon as practical.

If you have Questions concerning this comment, please contact us.

Sincerely,

Keskin, Cook, Miller & Alexander LLP

Keskin, Cook, Miller & Alexander, LLP